

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6510

BILL NUMBER: HB 1637

NOTE PREPARED: Jan 26, 2005

BILL AMENDED:

SUBJECT: School textbook funding.

FIRST AUTHOR: Rep. Goodin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill has the following provisions:

Textbook Definition- The bill expands the definition of "textbook" to include certain materials used in student instruction.

Textbook Fund- The bill requires school corporations to establish a textbook fund and to use money from the fund to purchase textbooks. The bill requires the deposit of grant funds in a school corporation's textbook fund.

Textbook Grant- The bill provides an annual state textbook grant equal to \$83 multiplied by the average daily membership of a school corporation.

Textbook Rental Fee- The bill limits a student textbook rental fee to 25% of the total purchase price of the textbooks minus \$83.

Repealed Provisions- The bill repeals provision: (1) governing the accounting methods for textbook rental programs; and (2) authorizing the governing body of a school corporation to furnish textbooks free of charge in hardship cases.

Effective Date: July 1, 2005.

Explanation of State Expenditures: Textbook Grants- School corporations would be eligible for a state grant per ADM of \$83. The projected costs of these grants would be approximately \$81.2 M in FY 2006 and

\$81.3 M in FY 2007. The bill does not make appropriation to cover the grants.

Textbook Reimbursement- P.L. 224-2003 appropriated \$19.9 M for FY 2005 to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the Federal Free and Reduced Lunch Program. Since this bill reduces the amount a school corporation can charge under the Textbook Rental Program by \$83 per student, the State General Fund could realize a savings of \$19.9 M for FY 2006 and thereafter (based on the assumption that future appropriations remain at the FY 2005 level).

Potential Impact on the TANF Block Grant Program- The elimination of the Textbook Rental Program may impact the Temporary Assistance for Needy Families (TANF) program. The state is required to meet a specified maintenance of effort (MOE) level in order to qualify for the federal TANF block grant of approximately \$200 M annually. Indiana's annual TANF MOE obligation is approximately \$120 M. FSSA meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include about \$11.8 M state expenditures for textbooks in FY2004 as MOE, given it is an expenditure targeted at the low-income population. However, since the proposed textbook grant program is targeted at the general student population, the proposed new state expenditures will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing, but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. For this reason, the FSSA cannot count the entire \$19.9 M textbook expenditure described above as MOE.) Actual aggregate MOE expenditures for FY 2003 were \$113.5 M and \$122.5 M in FY 2004. The FSSA reports that Indiana met its obligation in both fiscal years.

Poor Relief/Reduction of PTRC- With the changes in tax law by HEA 1001-2002(ss), the state currently pays 16.2% of the Property Tax Replacement Credit (PTRC) on Poor Relief levies. The reduction in the Poor Relief levy explained under local revenues will result in a projected savings to the state paid by PTRC of \$23,300 in FY 2006 (16.2% of \$144,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Therefore, any reduction in PTRC reduces expenditures from the state General Fund.

The following table illustrates the potential net cost to the state regarding the provisions of this bill assuming projected levels of PTRC and textbook appropriations that continue beyond the biennium at the FY 2005 level.

		Elimination of State		
<u>FY</u>	<u>Textbook Grants</u>	<u>Appropriation for Textbooks</u>	<u>Less: Reduction in PTRC</u>	<u>Net Cost*</u>
2006	\$81.2 M	(\$19.9M)	(\$0.023 M)	\$61.3 M
2007	\$81.3 M	(\$19.9 M)	(\$0.020 M)	\$61.4 M

*As described above in the TANF section, the net cost to the state described in the table could increase by up to \$11.8 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

Explanation of State Revenues:

Explanation of Local Expenditures: School corporations may have additional funds to spend if revenue from these state grants exceeds the current funding sources as explained below.

This bill would require that school corporations pay for textbooks regardless of whether a state appropriation is made.

Explanation of Local Revenues: School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the Federal Free and Reduced Lunch Program, and financial assistance from township trustees. As proposed by this bill, school corporations would be eligible to use the state grant of \$83 per ADM instead of the above sources.

The following table compares the projected costs and revenues to school corporations under current law to the projected costs and revenues as proposed by this bill.

	Estimate Based On Current Law			Estimate Based on Proposed Bill				
<u>CY</u>	<u>Projected Revenue</u>	<u>Projected Costs</u>	<u>Current Diff.</u>	<u>State Grant</u>	<u>Projected Costs</u>	<u>Less: Trustees Assistance</u>	<u>Projected Diff.</u>	<u>Net Change</u>
2006	\$84.6M	(\$99.8M)	(\$15.2M)	\$81.2M	(\$99.8M)	(\$0.144M)	(\$18.7M)	(\$3.5M)
2007	\$87.3M	(\$103.1M)	(\$15.8M)	\$81.4M	(\$103.1M)	(\$0.126M)	(\$21.8M)	(\$6.0M)

Estimate Based on Current Law- Under current law, the revenues that school corporations receive from textbook fees and sales are projected to increase at an average rate of 3.2% annually. Monies from the State General Fund for textbook reimbursements are assumed to remain at the FY 2005 level (General Fund reimbursements), and assistance from township trustees is projected based on a five-year history beginning in FY 1997 (Township Trustee assistance). Textbook purchases are projected to increase by an average rate of 5.3% annually. The difference between projected revenues and expenditures is shown in the column noted "Current Diff. These projections show that costs are likely to exceed collected revenues assuming that projected trends occur.

Estimate Based on Proposed Bill- Under the proposed bill, school corporations would be eligible to receive revenue from a state grant based on each school corporation's ADM. This grant revenue, estimated to be approximately \$81 M per fiscal year, is projected to *not* exceed revenues that school corporations currently receive from other sources. The townships' respective maximum levies would be reduced by approximately \$144,000 in CY 2006 and \$126,000 in CY 2007 which would translate into a gross property tax reduction in the same amount for each calendar year. Taxpayers would realize a net property tax savings (after PTRC) of approximately \$113,000 in CY 2006 and \$99,000 in CY 2007.

Net Change- The final column in the table above shows the difference between the net differences of the two sets of projections. Overall, when comparing the differences in projections between current law and this bill, school corporations could potentially realize a reduction of revenues of -\$3.5 M in CY 2006 and -\$6.0 M in CY 2007.

Also, under current law, school corporations may provide free textbooks through elementary and high school libraries if 51% of the registered voters in the school district approve a referendum. This bill would reduce the General Fund levy of school corporations that currently provide free textbooks. However, local monies would be replaced by State monies in accordance with this bill. The specific number of school corporations that do so is currently indeterminable, however, at least two have been identified as providing free textbooks to students. The school corporations are as follows: 2) East Gibson School Corporation; and 2) Marion Community Schools.

State Agencies Affected: Department of Education, Department of Local Government Finance.

Local Agencies Affected: School corporations.

Information Sources: Department of Education ORACLE Data Tables; Patty Bond, Department of Education; William Bogard, Family and Social Services Administration.

Fiscal Analyst: Chris Baker, 317-232-9851.